

**THE OFFICE OF REGULATORY STAFF**

**DIRECT TESTIMONY**

**OF**

**CHRISTOPHER J. ROZYCKI**

**OCTOBER 9, 2017**



**DOCKET NO. 2017-256-C**

**Application of Combined Public Communications, LLC for Certificate  
of Public Convenience and Necessity to Provide Intrastate Resold  
Institutional Telecommunications Services and for Alternative  
Regulation with the State of South Carolina**

**DIRECT TESTIMONY OF  
CHRISTOPHER J. ROZYCKI  
ON BEHALF OF  
THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF  
DOCKET NO. 2017-256-C  
IN RE: APPLICATION OF COMBINED PUBLIC COMMUNICATIONS, LLC  
FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY TO  
PROVIDE INTRASTATE RESOLD INSTITUTIONAL  
TELECOMMUNICATIONS SERVICES AND FOR ALTERNATIVE  
REGULATION WITHIN THE STATE OF SOUTH CAROLINA**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.**

**A.** My name is Christopher J. Rozycki. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the State of South Carolina as the Director of Telecommunications for the South Carolina Office of Regulatory Staff ("ORS").

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

**A.** I have over thirty (30) years of relevant experience. I have more than twenty (20) years in telecommunications business and regulation and nearly ten (10) years in the regulation of energy industries.

My testimony and advocacy covered issues involving finance, economics, rate-of-return, competitive entry, intercarrier compensation and access. I have also been involved with the startup, development, and funding of telecommunications companies.

I hold a master's degree in Economics from George Mason University in Fairfax,

1 Virginia and a bachelor's degree in Economics from Georgetown University in  
2 Washington, DC.

3 **Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE THE PUBLIC SERVICE**  
4 **COMMISSION OF SOUTH CAROLINA ("COMMISSION")?**

5 **A.** Yes.

6 **Q. HAVE YOU TESTIFIED PREVIOUSLY ON TELECOMMUNICATIONS**  
7 **MATTERS BEFORE OTHER STATE PUBLIC SERVICE COMMISSIONS?**

8 **A.** Yes. I have testified on a variety of telecommunications issues in Alabama,  
9 Delaware, Florida, Georgia, Louisiana, Mississippi, New York, North Carolina,  
10 Pennsylvania, Tennessee, Vermont, and Virginia.

11 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

12 **A.** The purpose of my testimony is to provide information related to the ORS review  
13 of the Combined Public Communications, LLC application for a CPCN to provide inmate  
14 services in South Carolina.

15 **Q. CAN YOU SUMMARIZE THE FINDINGS OF ORS?**

16 **A.** Yes. On August 10, 2017, Combined Public Communications, LLC (CPC or the  
17 Company) filed an application for a certificate of public convenience and necessity to  
18 provide intrastate resold institutional telecommunications services and for alternative  
19 regulation within the state of South Carolina. ORS reviewed the CPC application and found  
20 the following deficiencies:

- 21 1. CPC failed a financial review conducted by the ORS Audit Department.
- 22 2. All or most CPC services require prepayment, but the Company lacks the cash or liquid
- 23 assets to repay customers who have prepaid or set up debit accounts should the

Company cease to do business in South Carolina or declare bankruptcy before services are received.

**Q. EXPLAIN IN MORE DETAIL THE PROBLEMS OR DEFICIENCIES WITH CPC'S APPLICATION.**

**A.** Section 58-9-280(B)(1) requires a new applicant to "show that it possesses technical, financial, and managerial resources sufficient to provide the services requested." In its application CPC failed to demonstrate it has the financial resources necessary to provide service to inmates and the general public while meeting its financial obligations.

The ORS Audit Department examined the financial statements submitted by the Company with their application and, using the data in those statements, calculated various financial ratios as of the year ended December 31, 2016. ORS learned the following information about the Company:

- Cash represents 21% of the Company's total assets – This percentage is considered inadequate to pay the Company's current or short-term liabilities.
- Cash Ratio – 0.31:1 (liquid assets to short-term liabilities) – The ratio should be 1:1 or higher. The ratio demonstrates the Company does not have the liquid assets to pay its short-term liabilities.
- Current Ratio – 0.68:1 – The ratio measures the Company's ability to meet short term obligations with short term assets. An established company should have a current ratio between 1.2 and 2.0. CPC's very low current ratio indicates it will have difficulty meeting its short term obligations, which indicates a high level of risk to customers that have prepaid for service or that have debit accounts that the Company can access.

- 1 • Debt to Equity ratio – (1.39):1 – The ratio is notable because the Company presented a
- 2 balance sheet showing negative equity which is unusual and not favorable.
- 3 • Debt Ratio - 3.58:1 – The ratio indicates the Company is at risk of defaulting on its
- 4 loans. The debt ratio should be well below 1:1.

5 **Q. WHAT IS THE RISK OR POTENTIAL HARM ASSOCIATED WITH THESE**

6 **POOR FINANCIAL RATIOS?**

7 **A.** All or most CPC services require prepayment or the establishment of a debit

8 account by the inmate or residential customer. These customer funds may be at risk. The

9 Company does not have the liquid assets (cash and marketable securities) necessary to pay

10 its short-term liabilities. The Company's debt ratio is also is also extremely high at 3.58:1

11 indicating the Company is at risk of defaulting on its long-term debt.

12 As a result, ORS recommends the Commission protect consumers by denying

13 CPC's application for a CPCN.

14 **Q. WHAT CAN THE COMMISSION DO TO MITIGATE THIS RISK OR PROTECT**

15 **CONSUMERS?**

16 **A.** To mitigate this risk ORS believes the Commission has at least two options at its disposal:

17 1. The Commission can deny the application of CPC for a CPCN to do business in South

18 Carolina; or, in the alternative,

19 2. The Commission can allow CPC to post a bond with the Commission as described in

20 my recommendations below.

21 **Q. ARE THERE ANY OTHER ISSUES YOU WISH TO MENTION?**

1     **A.**             Yes. A new benchmark or method to establish that rates filed by all inmate service  
2             providers are just and reasonable is needed. A number of states across the country have  
3             already established such benchmarks.

4     **Q.     WHAT IS ORS' RECOMMENDATION?**

5     **A.**             We recommend that:

- 6             1. The Commission protect South Carolina consumers and deny the application of CPC
- 7             for a CPCN; or, in the alternative,
- 8             2. The Commission allow the Company to place a bond with the Commission to protect
- 9             its retail customers in an amount sufficient to cover all prepayments and open debit
- 10            accounts. The Commission might also allow the annual renewal of this bond and
- 11            require that the amount of the bond be initially established through negotiation between
- 12            ORS and the Company and approved by the Commission.

13    **Q.     DOES THIS CONCLUDE YOUR TESTIMONY?**

14    **A.**             Yes, it does.  
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